

Message Text

CONFIDENTIAL

PAGE 01 LISBON 06915 081901Z

55

ACTION EUR-12

INFO OCT-01 ISO-00 SS-15 SP-02 EB-07 INR-07 NSC-05 CIAE-00

SSO-00 EURE-00 INRE-00 NSCE-00 /049 W

----- 124089

O 081829Z OCT 76 ZFF-4

FM AMEMBASSY LISBON

TO SECSTATE WASHDC IMMEDIATE 8801

C O N F I D E N T I A L LISBON 6915

LIMDIS

E.O. 11652: GDS

TAGS: PFOR, ECON, PO

SUBJECT: USG LOAN FOR PORTUGAL

REF: LISBON 6580

1. DURING OUR MEETING THIS MORNING OCT 8 (SEPTELS) PRIME MINISTER SOARES EMPHASIZED URGENT GOP NEED FOR IMMEDIATE, SHORT-TERM BRIDGING LOAN OF APPROXIMATELY \$300 MILLION. SUCH A LOAN IS ABSOLUTELY NECESSARY, HE STRESSED, TO PREVENT EXHAUSTION OF LIQUIDITY WHILE GOP INTRODUCES NEEDED ECONOMIC REFORMS.

2. MINISTER OF FINANCE MEDINA CARREIRA HAD EXPRESSED THE SAME URGENCY TO ME AND ECON COUNSELOR DURING LUCHEON MEETING ON WEDNESDAY, OCTOBER 6. HE ESTIMATED THAT CURRENTLY AVAILABLE LIQUID RESERVES WOULD LIKELY BE EXHAUSTED BY THE END OF NOVEMBER. GOP HAS NO OTHER SOURCE FROM WHICH TO DRAW IN ORDER TO EXTEND ITS LIQUIDITY.

3. COMMENT. GOP CLEARLY FEELS DESPERATELY SQUEEZED BY THE DECLINE OF ITS LIQUID RESERVES. HAVING EXHAUSTED ITS POTENTIAL EUROPEAN SOURCES, IT APPARENTLY BELIEVES THAT USG IS ONLY POTENTIAL CREDITOR CAPABLE OF RESPONDING IN AN ADEQUATE, TIMELY MANNER. IT VIEWS
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 LISBON 06915 081901Z

SUCH A LOAN AS A TEMPORARY MEASURE WHILE IT MOVES THE

ECONOMY BACK TOWARD EQUILIBRIUM.

4. GOP IS INTRODUCING NEEDED ECONOMIC REFORMS AND SEEKING LONGER TERM CREDIT FACILITIES. IT HAS ANNOUNCED SEVERAL MAJOR CHANGES IN LABOR LEGISLATION, INTRODUCED MEASURES TO RESTRICT NON-ESSENTIAL IMPORTS, ALLOWED A FASTER RATE OF PRICE INCREASE, STATED THAT WAGE INCREASES WOULD BE MINIMIZED, AND INDICATED THAT IT WOULD SEVERELY RESTRICT 1977 BUDGET DEFICIT. GOP FEELS IT CANNOT MOVE MORE RAPIDLY WITHOUT SEVERELY DISRUPTING COUNTRY'S POLITICAL AND SOCIAL FABRIC. SIMULTANEOUSLY, IT HAS BEGUN DISCUSSIONS WITH SEVERAL PRIVATE FINANCIAL INSTITUTIONS WITH A VIEW TO OBTAINING A SIGNIFICANT CONSORTIUM CREDIT. GOP HAS ALSO HAD PRELIMINARY DISCUSSIONS WITH IMF. IT RECOGNIZES, HOWEVER, THAT IMF CANNOT PROVIDE SUFFICIENT CREDIT TO MEET ITS NEEDS. USG LOAN, THEREFORE, CANNOT BE PREMISED ON REPAYMENT FROM SUBSEQUENT IMF LOAN. USG LOAN CAN BE RELATED TO PORTUGAL'S CONCLUDING STANDBY ARRANGEMENT, BUT REPAYMENT WOULD HAVE TO COME FROM LARGE PRIVATE SECTOR CREDIT IN EARLY 1977.

5. I CONCUR WITH PRIME MINISTER SOARES AND FINANCE MINISTER MEDINA CARREIRA THAT EXHAUSTION OF GOP LIQUIDITY RESERVES END OF NOVEMBER WOULD CAUSE SEVERE ECONOMIC SHOCK. IMPOSED, ABRUPT REDUCTION IN CONSUMPTION WOULD HAVE SERIOUS, UNFORESEEABLE CONSEQUENCES FOR PORTUGAL'S WEAK POLITICAL STRUCTURE. WE WOULD RUN THE RISK OF REVERSING THE POLITICAL GAINS ACHIEVED DURING THE PAST YEAR.
CARLUCCI

NOTE BY OC/T: DISTRIBUTION COORDINATED WITH MR. MACK, S/S-O.

CONFIDENTIAL

NNN

Message Attributes

Automatic Decaptioning: Z
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC ASSISTANCE, LOANS, LIQUIDITY (MONETARY), ECONOMIC PROGRAMS
Control Number: n/a
Copy: SINGLE
Draft Date: 08 OCT 1976
Decaption Date: 28 MAY 2004
Decaption Note: 25 YEAR REVIEW
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: CunninFX
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976LISBON06915
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D760380-0962
From: LISBON
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19761068/aaaachdv.tel
Line Count: 95
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EUR
Original Classification: CONFIDENTIAL
Original Handling Restrictions: LIMDIS
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 2
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: LIMDIS
Reference: 76 LISBON 6580
Review Action: RELEASED, APPROVED
Review Authority: CunninFX
Review Comment: n/a
Review Content Flags:
Review Date: 04 MAY 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <04 MAY 2004 by BoyleJA>; APPROVED <30 AUG 2004 by CunninFX>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: USG LOAN FOR PORTUGAL
TAGS: PFOR, ECON, PO, US
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006